An Analysis of Debt Warehousing in Tourism

February 2024

Background

- Debt Warehousing was introduced to assist businesses experiencing cash-flow and trading difficulties during the COVID-19 pandemic. Under the Scheme, businesses could defer paying the following tax liabilities:
    - VAT
    - PAYE/PRSI/USC (“PREM”)
    - Temporary / Employment Wage Subsidy Scheme (TWSS & EWSS) overpayments
    - Income Tax liabilities (subject to qualifying criteria)

- Those availing of the Scheme have until 1st May 2024 to pay the warehoused debt in full, if they can, or engage with *Revenue* on addressing the debt including through a Phased Payment Arrangement (PPA).

February 2024 Update:

- The interest rate applicable to warehoused debt has been cut from 3% to 0%. Where a business has already paid warehoused debt subject to interest of 3%, that interest will be refunded.

- Additional flexibilities, including payment breaks, changes to monthly payments for those experiencing cash flow difficulties and payment arrangements beyond the typical three to five-year duration, may also be made available to businesses (on a case-by-case basis).

Debt Warehousing Summary

€3.1bn warehoused at the peak of the Scheme

105,000 businesses have availed of the initiative

€1.7bn outstanding across **58,000** businesses

Almost **70%** of these businesses owe less than **€5,000**

Source: *Revenue (Jan 2024)*

Accommodation & Food Services

The Accommodation & Food Services sector's outstanding warehoused debt balance from the pandemic stands at over **€265m*.**

More than 900 businesses owe at least €50k. The majority (60%) of these owe €100k or more, while over 100 firms have an outstanding balance of at least €500k.

While *Revenue* announced that it will work, and be flexible, with businesses, the debt still needs to be repaid in full or through a repayment arrangement. **Both options place financial strain on owing firms.**

******Revenue (January 2024)*

€265m in outstanding warehoused debt across the Accommodation & Food Services sector

900 businesses owe **€50k** or more…

…**500** of these owe **€100k+** of which…

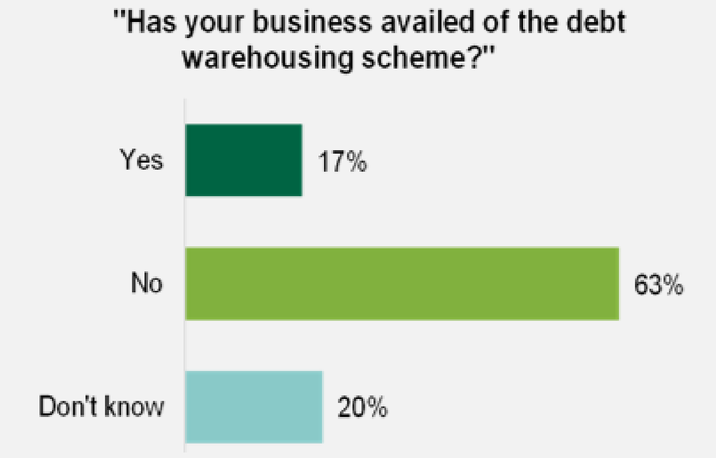
…**100** owe **€500k+**

Source: *Revenue*

Impact on the Tourism Sector

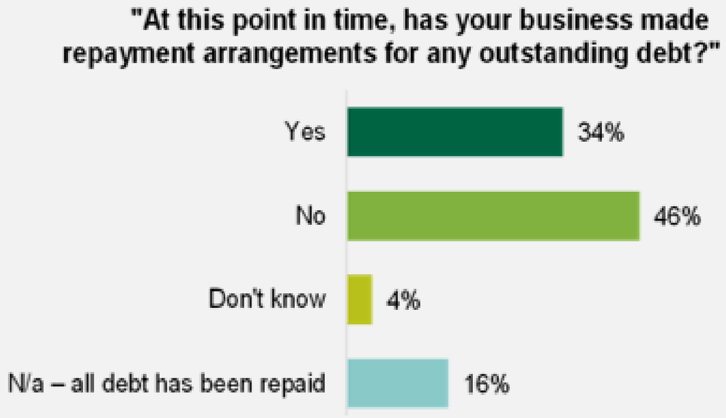
Findings from Fáilte Ireland's January 2024 Tourism Barometer

Using / Used the Scheme



Base: 1,236

Repayment Arrangements



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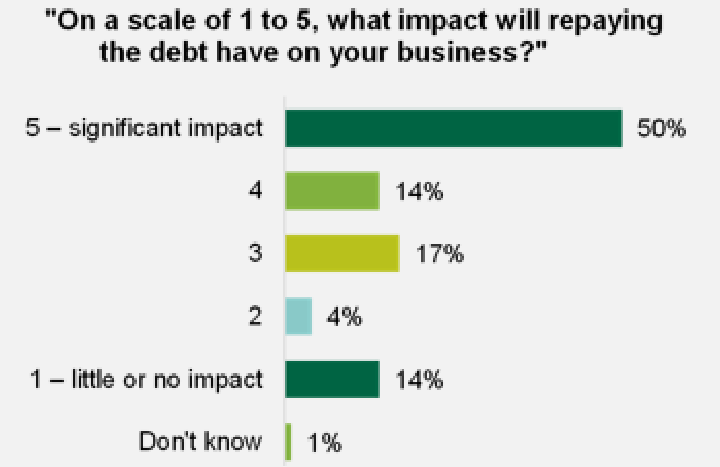
Asked to those who have availed of the Scheme

Impact on Business



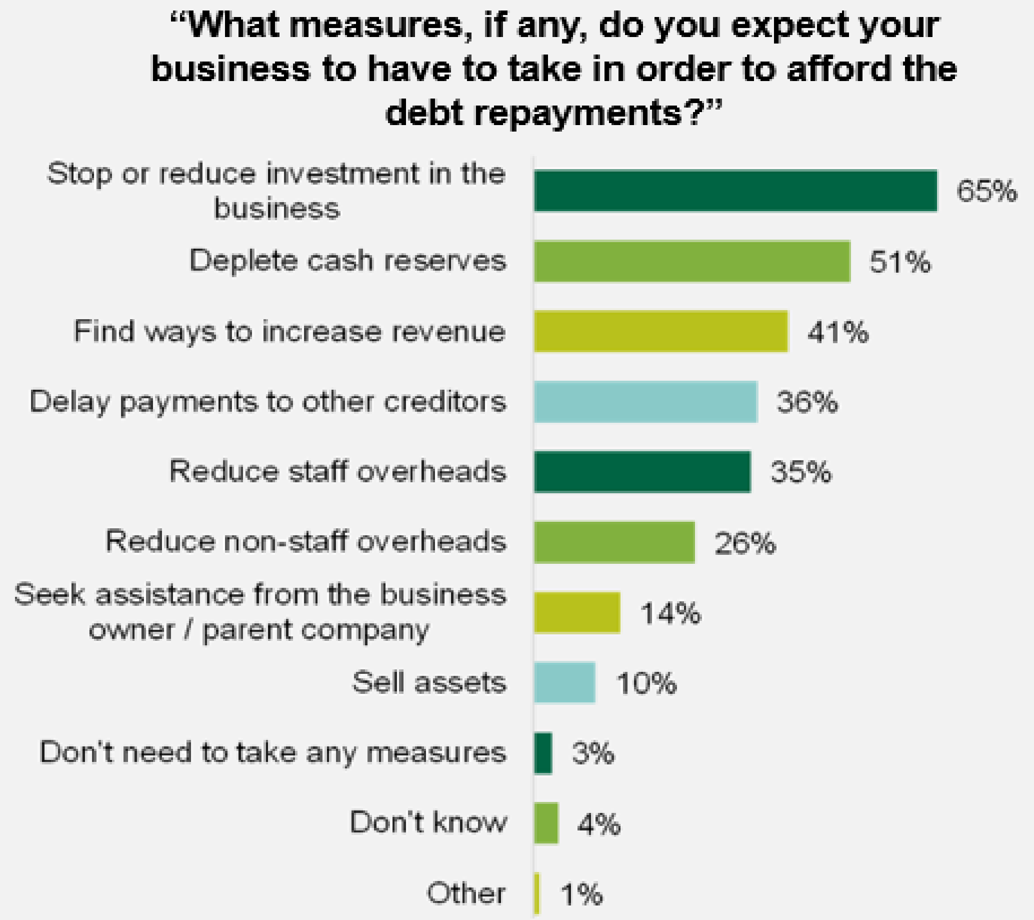
Base: 177
Asked to those who have availed of the Scheme and have repayments to make

- 17% of respondents have used the Scheme, 46% of which had not yet made repayment arrangements as of January.
- Food & Drink sector respondents are more likely to have availed of the Scheme compared with businesses in other sectors across the industry (37% v 11%). They are also less likely to have made repayment arrangements.
- About two thirds (68%) of Food & Drink sector respondents with outstanding liabilities have indicated that repayments are likely to have a significant impact (compared with 33% of respondents in other sectors across the industry).

Source: *Fáilte Ireland Tourism Barometer (Jan 2024)* *Note: Survey was conducted in advance of the February announcement relating to amendments to the Debt Warehousing Scheme*

Impact on the Tourism Sector

Measures to afford repayments



Base: 143
Asked to those answering the impact of making repayments will be 3 or higher

- Businesses expecting a moderate to significant impact of the debt repayments plan to deal with it in different ways.
- The most frequently cited action – '*stop or reduce investment in the business*' – may help in the short term, but this could harm the quality of the industry's offering in the longer term.
- The indication is that stopping or reducing investment is the most common action in all sectors and regions with a sample size of substance.
- Prices across the industry could rise further, with 41% of respondents citing *'finding ways to increase revenue'*. This could put Ireland's VFM proposition at further risk.

Source: *Fáilte Ireland Tourism Barometer (Jan 2024)* *Note: Survey was conducted in advance of the February announcement relating to amendments to the Debt Warehousing Scheme*

Impact on the Tourism Sector

Higher operational costs for businesses across tourism & hospitality

Labour Costs Rising

Minimum Wage: The Minimum Wage increased from €11.30 to €12.70 on Jan 1st, 2024.

PRSI Contributions: In Budget 2024, the Minister for Finance announced an increase in PRSI rates (for employees and employers), which would come into effect from 1 October 2024.

Sick Leave & Pay: Employers are required to provide Statutory Sick Pay to employees set at 70% of the employees' normal wage. Initially set at up to 3 days' pay in 2023, the entitlement now stands at 5 days in 2024 and will increase incrementally over time.

Public Holidays: The number of public holidays has increased by one day to bring the total to 10.

Minimum Permit Remuneration: All General Employment Permit (GEP) roles that were subject to a €30,000 minimum annual remuneration (MAR) threshold increased to €34,000 as of January 2024. These thresholds will increase further in January 2025 based on CSO data on average earnings.

Cost of Credit Substantially Higher

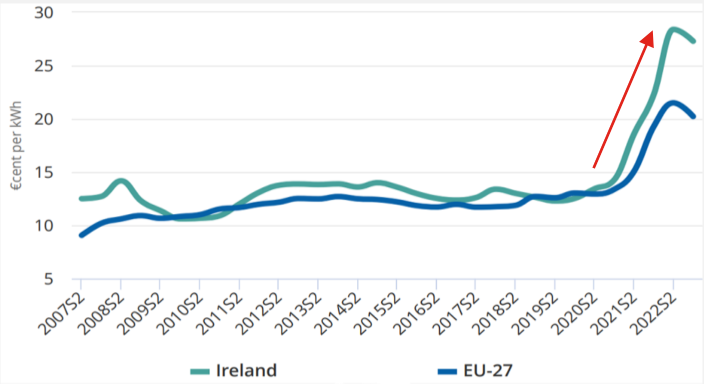
Interest Rates on Loans to Hotels & Restaurants

Source: Central Bank of Ireland

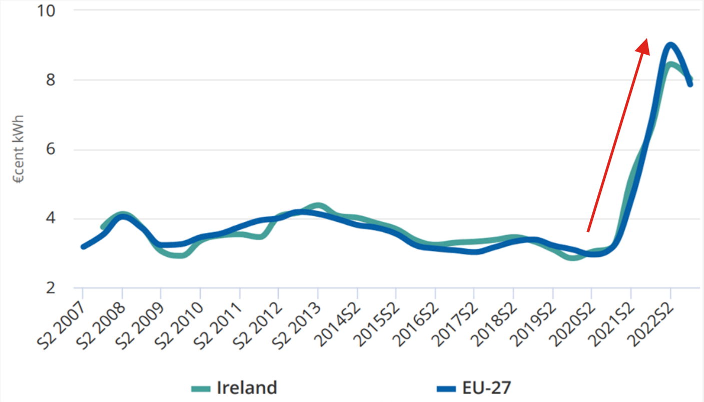
Notwithstanding the more benign repayment programme announced, the May 1st deadline for businesses with outstanding warehoused debt to engage with *Revenue* comes at a time when core operational costs, namely labour, capital and energy, have moved sharply higher for operators across tourism & hospitality, compounding viability concerns.

Energy Costs have Risen Sharply

Average Electricity Prices for Businesses (ex. VAT)



Average Gas Prices for Businesses (ex. VAT)



Source: SEAI

Summary

- **The Accommodation & Food Services sector's outstanding warehoused debt balance stood at over €265m as of January 2024.**
- More than 900 businesses in the sector owed at least €50k. The majority (60%) of these owe €100k or more, while over 100 firms owed at least €500k.
- New terms announced in February, including the removal of interest rates and additional flexibility on repayments, are welcomed.
- However, there are clearly concerns among those within the sector with outstanding debts that **repayment will place additional strain on the business. The most frequently cited action – 'stop or reduce investment in the business' – could harm the offering.**
- **Businesses still availing of the Debt Warehousing Scheme need to engage with *Revenue* before 1st May 2024.**
- *Revenue* has said it will be pragmatic and flexible in relation to the payment plans and will work with businesses so that they can secure the viability of their business into the future.
- To avail of such flexibility, businesses must file their current tax returns on time, meet their current tax liabilities as they fall due and engage with *Revenue* about their plans to deal with any warehoused debt.
- **Not meeting these conditions could end in the warehouse facility being revoked, resulting in interest rates of 8% and 10% (dependent on taxhead) applying and the immediate enforcement of all outstanding debt, including interest.**

For more information, please visit
https://www.revenue.ie/en/starting-a-business/paying-your-tax/debt-warehousing/index.aspx